



MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. FEDERAL BUDGET IMPLEMENTATION IN 2021

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In 2021, the federal budget was implemented with a small surplus, which is an important achievement after a deficit of 3.8% of GDP a year before. It became feasible owing to two factors: oil and gas revenues returned to the precrisis level in nominal terms, while non-oil and gas revenues saw sustainable growth.

In 2021, federal budget revenues surpassed Rb25 trillion, a considerable increase both in nominal terms and GDP shares as compared with relevant values of the previous years (*Table 1*). Also, actual revenues exceeded their projected value envisaged in the original version of the Law on the 2021 Federal Budget and the Planned Period of 2022 and 2023 (Federal Law No. 385 FZ of December 8, 2020): an increase of nearly 35% of baseline expectations (Rb18765.1 bn). The specifics¹ of forecasting budget revenues can be explained by a conservative approach to the assessment of the Russian economic outlook and underprediction of the rate of inflation on one side and high uncertainties in global economic recovery amid the pandemic and an acute geopolitical situation on the other side.

After sliding down in 2020, the budget's oil and gas revenues bounced partially back in 2021: the volume of customs duties and fees failed to recover in full (a decrease of 0.2 p.p. of GDP relative to 2019), but severance tax revenues returned to the pre-crisis level. In the past few years, the share of non-oil and gas revenues in overall federal budget revenues fluctuated considerably: from 40.8% in 2019 to 26.4% in 2020, while in 2021 increased to 37% (*Table 1*). Within a three-year horizon, dynamics of non-oil and gas revenues in GDP shares were less volatile and showed sustainable growth both in nominal and real terms. This is evidence of a certain improvement in long-term sustainability of the federal budget.

The main federal budget revenues are still related with two taxes: the severance tax and the VAT. They account for two-thirds of all budget revenues.

The momentum of severance tax revenues was driven by recovery of oil production volumes in Russia and appreciation of oil prices. So, monthly volumes of oil production which fell considerably (a decrease of 20%) in 2020 on the back of the spread of the coronavirus infection and suspension of OPEC+ deals started to return gradually to the 2019 level. In 2021, the price for Urals oil was on average even higher than in 2019 (*Table 1*) owing to a global economic

¹ The largest deviation in the past decade. The most accurate forecast was made in the Law on 2019 Federal Budget where the deviation was equal to the mere 1.1%.

Table 1

The federal budget main parameters in 2019–2021

	2019		2020		2021		Change in 2021 on 2019		Change in 2021 on 2020	
	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP
Revenues – total	20 188.8	18.4	18 719.1	17.4	25 286.4	19.3	5 097.6	0.9	6 567.3	1.9
<i>Including:</i>										
- oil and gas revenues	8 247.7	7.5	4 951.2	4.6	9 335.5	7.1	1 087.8	-0.4	4 384.3	2.5
<i>Including:</i>										
- Severance tax	5 971.7	5.4	3 819.7	3.6	7 110.9	5.4	1 139.2	0	3 291.2	1.8
- non-oil and gas revenues	11 941.1	10.9	13 767.9	12.8	15 950.9	12.2	4 009.8	1.3	2 183.0	-0.6
<i>Including:</i>										
- VAT	7 095.2	6.5	7 202.2	6.7	9 212.2	7.0	2 117.0	0.5	2 010.0	0.3
- excises	612.5	0.6	1 137.3	1.1	-142.3*	-0.1	-754.8	-0.7	-1 279.6	-1.2
Expenditures – total	18 214.5	16.7	22 821.5	21.2	24 762.0	18.9	6 547.5	2.2	1 940.5	-2.3
<i>Including:</i>										
- interest expenses	730.8	0.7	784.2	0.7	1 084.2	0.8	353.40	0.1	300.00	0.1
- non-interest expenses	17 483.7	16.0	22 037.3	20.5	23 677.8	18.1	6 194.10	2.1	1 640.50	-2.4
Deficit (-) / surplus (+)	1 974.3	1.8	-4 102.4	-3.8	524.4	0.4	-1 449.9	-1.4	4 626.8	4.2
Non-oil and gas deficit	-6 273.4	-5.7	-9 053.6	-8.4	-8 811.1	-6.7	-2 537.7	-1.0	242.5	1.7
GDP, billion Rb	109 608		107 315		130 795					
Price for a barrel of Urals oil, USD/a barrel	63.59		41.73		66.00					

* A decrease in the excises volume can be substantiated by the implementation of the mechanism of excise refund in respect of petroleum feedstock within the framework of accomplishment of tax maneuver in the oil industry.

Source: The RF Ministry of Finance, Federal Treasury, Rosstat and own calculations.

recovery and growth in demand for oil. In 2021, the exchange rate volatility had no significant effect on ruble revenues of Russian oil producers.

In 2021, VAT revenues increased on domestic turnover and imports. This growth was facilitated by a return of households' pent-up demand for durable goods (retail sales in Russia increased overall by 5% relative to 2020 with a pickup in sales of non-food goods being equal to 12%) and increased imports to Russia. Based on results for 2021, imports amounted to 21.3% of GDP, the maximum value since 2009. However, such VAT revenues dynamics point sooner to a temporary nature thereof.

In 2021 the federal budget saw a reduction in excises revenues on the back of implementation of the mechanism of excise refund in respect of petroleum feedstock within the framework of accomplishment of tax maneuver in the oil industry. A refund of excises on petroleum feedstock meant for processing was equal to over Rb1,287 bn (against Rb135.0 bn in 2020); it surpassed overall revenues – credited to the budgets of all level – from excises on additive products.

In 2021, federal budget expenditures amounted to 18.9% of GDP, an increase of 2.2 p.p. of GDP relative to the 2019 level and a decrease of 2.3 p.p. of GDP relative to 2020 when a large-scale anti-crisis support of households and business was initiated at the expense of federal budget funds (Table 2). In 2021 a more substantial reduction in expenditures in GDP shares as compared with the previous year took place in the following sections: "Social policy" – a decrease of 1.4 p.p. of GDP or Rb314.5 bn, "Intergovernmental fiscal transfers" –

1. Federal Budget Implementation in 2021

Table 2

Federal budget expenditures in 2019–2021

	2019		2020		2021		Change in 2021 on 2019		Change in 2021 on 2020	
	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP	Billion Rb	% GDP
Expenditures – overall	18 214.5	16.6	22 821.5	21.2	24 762.0	18.9	6 547.5	2.3	1 940.5	-2.3
Including:										
Issues of federal importance	1 363.5	1.2	1 507.7	1.4	1 759.4	1.4	395.9	0.2	251.7	0.0
National defense	2 997.4	2.7	3 168.8	3.0	3 573.5	2.7	576.1	0.0	404.7	-0.3
National security and law enforcement	2 083.2	1.9	2 226.5	2.1	2 335.9	1.8	252.7	-0.1	109.4	-0.3
National economy	2 827.1	2.6	3 483.9	3.2	4 356.4	3.3	1 529.3	0.7	872.5	0.1
Housing and utilities	282.2	0.3	371.4	0.4	593.7	0.4	311.5	0.1	222.3	0.0
Protection of the environment	197.5	0.2	260.6	0.2	405.1	0.3	207.6	0.1	144.5	0.1
Education	826.5	0.7	956.8	0.9	1 064.4	0.8	237.9	0.1	107.6	-0.1
Culture and cinematography	122.4	0.1	144.5	0.1	146.7	0.1	24.3	0.0	2.2	0.0
Healthcare	713.0	0.7	1 334.4	1.2	1 473.9	1.1	760.9	0.4	139.5	-0.1
Social policy	4 882.8	4.4	6 990.3	6.5	6 675.8	5.1	1 793.0	0.7	-314.5	-1.4
Physical culture and sports	81.4	0.1	75.3	0.1	70.9	0.1	-10.5	0.0	-4.4	0.0
Mass media	103.5	0.1	121.1	0.1	114.0	0.1	10.5	0.0	-7.1	0.0
Public debt servicing	730.8	0.7	784.2	0.7	1 084.2	0.8	353.4	0.1	300.0	0.1
Intergovernmental fiscal transfers	1 003.1	0.9	1 395.9	1.3	1 107.7	0.9	104.6	0.0	-288.2	-0.4

Source: The RF Ministry of Finance, Federal Treasury and own calculations.

0.4 p.p. of GDP or Rb288.2 bn, “National defense” and “National security and law enforcement” – 0.3 p.p. of GDP by each and growth of Rb404.7 bn and Rb109.4 bn in absolute terms, respectively. As regards other sections of the federal budget, changes in expenditure dynamics in shares of GDP in 2021 as compared with 2020 were insignificant (within the range of 0.1 p.p. of GDP).

Though the share of expenses on national projects in the overall federal budget expenditures fell to 10.3% in 2021 as compared with 10.8% a year before, funding in nominal terms increased by Rb400 bn or 18.6% amounting in total to over Rb2.5 trillion. The highest funding growth was seen in the following national projects: “Safe and quality motor roads” – a 1.3-fold increase, “Science and universities” – an increase of 98.8%, “International cooperation and export” – 63%, “Housing and urban environment” – 55.9%. In 2021, the main challenge in implementation of national projects was appreciation of prices, particularly, on building materials and this situation led to a higher cost of building of social facilities, for example, schools (an increase of 26%) and housing (22%).


The share of classified items of the federal budget expenditures tended to decrease and amounted to 15.1% against the last decade’s maximum of 21.7% in 2016.

In 2021, the federal budget surplus amounted to 0.4% of GDP or Rb524.4 bn, a decrease of Rb1.4 trillion relative to the budget surplus seen in 2019 and an increase of Rb 4.6 trillion relative to the budget deficit in 2020. Though global prices for oil picked up in 2021, non-oil and gas federal budget deficit was equal to 6.7% of GDP. Amid overall budget surplus, it means that slightly over one-third of all budget expenditures are funded by means of market revenues.

As regards the movement of federal budget funds which were accounted for as deficiency payment sources in January–December 2021, it is noteworthy that Rb2.5 trillion of funds were borrowed on the domestic market with the

approved volume of Rb3.7 trillion (Rb5.2 trillion and Rb2.3 trillion, respectively, in 2020). Redemption of securities denominated in the national currency was equal to Rb981.3 bn with the planned volume of Rb986.2 bn. The volume of loans extended in the national currency to budgets of the budgetary system of the Russian Federation amounted to Rb338.8 bn, including Rb334.8 bn on repayment of debt obligations of RF constituent entities to credit institutions. In 2021, the volume of borrowings on the international market amounted to Rb134.2 bn, while the redemption volume, to Rb39.3 bn (planned volumes of Rb217.2 bn and Rb39.7 bn, respectively).

In 2021 the domestic public debt increased by Rb1,735.0 bn to Rb16,486.4 bn and the foreign debt was equal to Rb59.7 bn as of the beginning of 2022.

As of January 1, 2021, the volume of the National Welfare Fund (NWF) in the rouble equivalent amounted to Rb13565.4 bn or 11.7% of GDP. Specifically, the foreign exchange pattern of the National Welfare Fund underwent considerable changes in 2021. As of the end of December 2020, the NWF account balances with the Central Bank of Russia amounted to \$51.2 bn, euro 44.2 bn, GBP8.5 bn and Rb11.6 bn, that is an equivalent of Rb8969.6 bn or 66.6% of the overall NWF volume. Russia has been implementing the decision to give up completely the US dollars as sovereign reserves in favor of gold since July 2021. As a result, as of the end of 2021 out of Rb8432.6 bn (62.6% of the overall NWF volume) Rb4047.4 bn were placed in euro, GBP and yens, Rb2641.5 bn in yuan and Rb1743.7 bn in gold in anonymized form (or 405.7 tons). Overall, as of the end of 2021 with changes in the NWF's foreign exchange pattern taken into account sovereign reserves became less vulnerable to US sanctions, however, the developments of the past few weeks showed that it was not enough to minimize the risks of financial restrictions on the part of the EU, the UK and Japan. 

2. REGIONAL BUDGETS IN: SAFETY CUSHION HAS BEEN CREATED

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In 2021, the performance indexes of consolidated regional budgets (growth rates; total budget revenues and own tax plus non-tax revenues; nominal and real volumes of aggregate budget surplus) updated the all-time high of the last decade. In 2022, this will provide an opportunity to mitigate the effects of the crisis, and the reduction in the share of expensive commercial loans servicing will increase the debt sustainability of the regions against the backdrop of rising interest rates in the economy. The structure of regional expenditures in 2021 remained stable, and its main changes were related to the completion of anti-crisis measures in 2020 and the reorientation of some expenditures to areas related to capital investments (housing and utilities sector and transport).

Revenues

According to the report on the budgets execution, the total volume of revenues to consolidated regional budgets in 2021 rose against 2020 by 17.8%, which is markedly higher than the inflation rate,¹ and amounted to Rb17.8 trillion. However, the corresponding volume, expressed as a share of GDP, not only failed to increase, but even declined by 0.5 p.p. (from 13.9% to 13.4% of GDP), although it remained above the average level over the past 10 years (12% of GDP).

Tax and non-tax revenues of consolidated budgets of the subjects in 2021 grew by 26.4%, or 0.4 p.p. of GDP hitting the level of 10.4% of GDP – a maximum over the last decade. Corporate profit tax was responsible for the main contribution to real growth of tax and non-tax revenues, whose revenues increased by 54.7% (or by 0.4 p.p. of GDP), also reaching its maximum value over the period of 2009–2021 (3.46% OF GDP). The main source of such dynamics of profit tax revenues was soaring global prices on hydrocarbons, as well as other commodities exported from Russia (metals, fertilizers, etc.). Receipts from taxes on aggregate income (+36.6%), which was associated with a revival of economic activity of small and medium-sized businesses after the shock of 2020, non-tax revenues (31.5%), excise taxes (19.1%) and personal income tax (12.7%) were growing faster than inflation in 2021. Property taxes showed lower growth rates (6.4%).

In contrast to major tax and non-tax revenues, the volume of intergovernmental fiscal transfers to regions dropped by 2.6% in 2021, which was due to the gradual reduction of additional financial assistance from the federal budget, which regions received in 2020 as part of the fight against the effects of the pandemic.

¹ According to Rosstat, the consumer price index in 2021 (December 2021 to December 2020) constituted 108.4%.

Eighty-three subjects saw a growth in budget revenues in 2021, and only two of them, the Crimea Republic (-3.1%) and Chukotka Autonomous District (-0.9%), saw a slight decline relative to 2020. A decrease in budget revenues in the Republic of Crimea resulted from a 15% reduction in intergovernmental fiscal transfers, while revenues from corporate income tax slumped by 29.2% in the Chukotka Autonomous District.

Eleven subjects of the Russian Federation saw consolidated budget revenues soar by more than 30%, with Lipetsk Region (48.7% in nominal terms vs. 2020) and Tyumen Region leading the way (42.8%). In nearly all of these regions, high growth rates of budget revenues were caused by outpacing increases in corporate profit tax revenues, and only in the Sakha Republic non-tax revenues were the main source of growth (up by roughly 4-fold).

Thus, the revenues of consolidated regional budgets in 2021 demonstrated the all-time high growth over the period 2009–2021, thus confirming the recovery from the acute phase of the pandemic-induced crisis.

The recovery from the crisis, accompanied by the growth of regional budget revenues, often leads to an increase in the differentiation of their fiscal capacity. However, in 2021, the growth rate of own tax and non-tax revenues of the least well-to-do regions (35 subjects with the estimated fiscal capacity¹ below 0.6 in 2021) was close to the respective index of average well-to-do regions (41 regions with the estimated fiscal capacity level from 0.6 to 1.0 in 2021) and slightly above the respective indicator of well-to-do regions (16 regions with the estimated fiscal capacity level above 1.0 in 2021).²

Expenditures

In 2021, expenses of the consolidated budgets of the subjects of the Russian Federation gained 8.4%, which roughly corresponded to the price growth and turned out to be much lower than the growth rate of budget revenues. Such a lag behind revenues in 2021 was partly to be expected, because the record deficit in 2020 could not last long, as it would have resulted in a considerable increase in the regional public debt. Expenditures of consolidated budgets of the RF subjects in 2021 hit Rb16.9 trillion, decreasing from 14.5% to 12.9% of GDP. Expenditures on the housing and utilities sector (26.9%), transport (17.6%), general education (11.5%) and roads (10.6%) were growing fastest among the largest industries in 2021. Expenditures on pre-school education (4.4%), national issues (3.2%), health care (1.3%) and social policy (3.8%) moved up at a slower rate. In the latter two cases, low growth rates of expenditures are associated with a high base year 2020 and the reduction of anti-crisis measures in these spheres.

Growth in total expenditures of consolidated regional budgets in Q4 2021 was slightly higher (12.0%) than the annual average.

The structure of expenditures of consolidated budgets of RF Subjects at year-end 2021 changed insignificantly. The share of expenditures on healthcare (from 12.9% to 12.0%) and social policy (from 21.3% to 20.4%) dropped slightly, but it remained above the corresponding figure for the pre-crisis year of 2019 (8.6% and 19.8%, respectively). The share of spending on housing and utilities (from 8.5 to 10%), the national economy (from 20.5 to 20.9%), and education (from

1 The level of estimated fiscal capacity of a subject of the Russian Federation is determined in accordance with the methodology approved by RF Government Decree of 22.11.2004 No. 670 "On the distribution of subsidies to equalize fiscal capacity of subjects of the Russian Federation".

2 The increase in own tax and non-tax revenues of the consolidated budgets of low-, medium- and high-income regions was 27.3%, 28.6% and 25.2% in 2021, respectively.

2. Regional Budgets in: safety cushion has been created

22.8 to 23.1%) rose. But here, too, in all three cases the share of expenditures did not exceed the pre-crisis level of 2019 (10.2, 21.8, and 24.7%, respectively).

Consequently, the structure of regional expenditures remained generally stable, and its main changes were associated with the completion of anti-crisis measures in 2020 and the reorientation of some expenditures to areas related to capital investment (housing and utilities sector and transport). Meanwhile, a full return to the pre-pandemic level has not yet occurred.


Nominal expenditures decreased in 2021 in three regions (Sakhalin Region (-7.4%), Kaliningrad Region (-3%) and Smolensk Region (-1.2%), and almost zero in another two (Kaluga Region and the Republic of Crimea). Kursk Region (21.9%), Amur Region (20.1%), and Sevastopol (16.7%) demonstrated the largest growth in expenditures. The regions were almost equally split on the inflation rate, which according to Rosstat was 8.4% in 2021: 41 subjects of the Russian Federation had more expenses than inflation, while 44 regions had less. Note an even dynamics of growth in budget expenditures by federal okrugs: the Central Federal Okrug is the leader (10.8% growth by 2020), while the Urals Federal Okrug exhibited the lowest growth rate (4.7%), not much different from that of the leader.

Balanced regional budgets and public debt

The advanced growth of regional revenues in 2021, which took place amidst restrained expenditure growth, allowed for turning the all-time high aggregate deficit of regional budgets in 2020 into a comparable aggregate surplus (Rb661 bn, or 0.51% of GDP). (Rb677 bn, or 0.63% of GDP) into a cumulative surplus of a comparable volume (Rb661 bn, or 0.51% of GDP). The number of regions that executed their budgets with a surplus amounted to 66 (28 regions in 2020). Three regions had consolidated budget deficits exceeding 10% of tax and non-tax revenues in 2021 (vs. 18 regions in 2020).

The volume of government debt of the RF subjects by the year-end 2021 decreased from Rb2.50 trillion to Rb2.47 trillion, while the debt load¹ - from 27.3% to 21%, which was the lowest value for the period of 2009–2021.

The debt structure changed significantly in 2021: the share of budget loans increased considerably (by 11.2 p.p. to 55.4%, which is the maximum over the period of 2005–2021) and government securities (by 1.5 p.p. to 32.3%, the maximum value over the period of 2011–2021), while the share of loans of credit institutions declined to 10.4% (the minimum value over the period of 2005–2021). These changes were the result of the federal anti-crisis policy towards the regions aimed at additional provision of budget loans and their replacement by commercial debt of the regions. As a result, the total share of commercial debt (loans of credit institutions and government securities) in the volume of regional debt was at 42.7% in 2021, falling below 50% for the first time over the period of 2005–2021.

Thus, the regions ended 2021 with the record indexes of the consolidated budgets execution for the last decade in terms of volume and growth rates of budget revenues, as well as the aggregate amount of budget surplus (Rb661 bn), which will serve as a financial resource to mitigate the effects of a new crisis, which will start to manifest itself in March-April 2022. The reduction of the share of expensive commercial debt in servicing the economy will increase the debt sustainability of regions. 

¹ The debt load of a region is defined as the ratio of the volume of its public debt to the volume of tax and non-tax revenues of its budget for the relevant year.

3. RETAIL LENDING IN 2021

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Despite the introduction of regulatory restrictions and interest rate hikes in H2 2021, retail lending remained one of the fastest-growing segments of the banking market throughout previous year and contributed to growth in banking incomes. Amidst increased sanctions pressure, the government and the Central Bank will be forced again, as during the crisis caused by epidemiological reasons, to stimulate banks' lending activities in order to support households. Should the international situation come back to normal and the economy stabilize, the RF CB may return to measures aimed at cooling the retail lending market.

The aggregate loan debt of individuals to Russian banks reached Rb25.1 trillion as of January 1, 2022. Growth of aggregate portfolio for 2021 amounted to Rb5023.9 bn, or 25.1%, exceeding annual growth rates of aggregate bank assets (15.9%) and corporate loans (16.1%). A year earlier, retail lending grew during the same period by Rb2.392.8 bn, or 13.6%.

Thus, growth rate of retail lending was significantly higher last year compared to 2020 and is a record high in the history of Russian credit market.

The ruble loans account for Rb25 trillion or 99.8% of the total loan debt. Ruble volatility and high hard currency risks resulted in an almost complete rejection of foreign currency loans, which declined by 40.2% over the previous year to just Rb56.2 bn.

The increase in overdue debt since the beginning of the year was 8.1%, and its total volume reached Rb1.008.3bn. The share of overdue debt in the loan portfolio as at January 1 this year was 4% (a year earlier this figure was 4.7%). On the whole, the overdue debt remains low, lower than in the corporate lending segment (6.4%). However, despite relatively high quality of a loan portfolio, systemic risks accumulate along growth of its volume: according to the Central Bank of Russia, by mid-2021, 45.6% of the debt was owed by borrowers with debt ratios (DR)¹ over 80%.

The profit margin of lending operations increased in 2021 (*Fig. 1*): interest income grew every quarter along with the growing market rates, and at the end of 2021 exceeded the level of 2020 by 7.3% (in 2020 growth was 6%), while fee and commission income increased more significantly, by 82.7% (in 2020 by 23.5%).

The consumer loan portfolio grew by 20.1% to Rb11.7 trillion with the highest growth rate at relatively low interest recorded in mid-year (up to 2.2% in May and August); amid rising interest rates, the rate fell to 0.5% (December) towards the end of the year. Overall, the cost of debt servicing for various types of

1 Debt ratios (DR) – the ratio of all payments on the debtor's loan obligations against his income.

3. Retail Lending in 2021

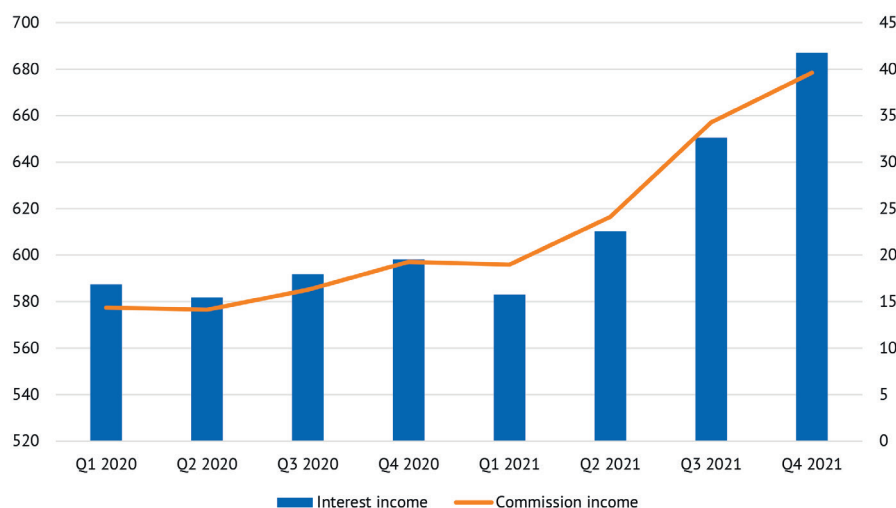


Fig. 1. Bank interest and commission income on retail lending operations in 2020–2021, quarterly, billions of rubles

Source: Report on financial results (form No. 102) for the period of April 1, 2020 to January 1, 2022/ Bank of Russia. URL: http://www.cbr.ru/banking_sector/otchetnost-kreditnykh-organizatsiy/

consumer loans (targeted, non-targeted, POS loans, i.e. those issued directly at retail outlets) increased by 2–3 p.p. by the end of the year. Car loans showed a similar trend with an annual increase of 22.1%. They rose to Rb1.3 trillion.

The total portfolio of mortgage housing loans (MHL) held by banks reached Rb12 trillion¹ as of January 1, 2022. The year increase was 26.4% exceeding the indicator of 2020 (21.1%). Mortgage lending growth in 2021 exceeded respective indicators in other retail segments.

In H1 2021, due to low market rates and preferential lending programs, the environment for mortgage loans remained favorable with a six-month increase of 13.8%. In H2 2021, a rise in market rates, cutbacks and redesigning of state programs, as well as an increase in risk premiums on loans demonstrating LTV² at 80–85% starting August 1, 2021 contributed to a slowdown in the market growth rate. This was, however, partly compensated by strong demand for real estate and development of new offers under the partnership programs between banks and developers (up 11% in the H2). Likewise, rising market rates have reduced demand for refinancing of previously issued loans, and their share in total bank lending dropped from 14.5% to 9.9% during the year.

The bulk of mortgage lending falls on the secondary segment (75%). During the previous year, the share of loans issued in the primary market decreased from 27% to 25%. The quality of mortgage portfolio remains high compared to other retail segments, while the share of loans overdue for more than 90 days does not exceed 1%.³

Since the end of February 2022, the aggravation of geopolitical situation and intensification of sanctions on Russia resulted in a sharp growth in credit risks, as well as in the probability of bank customers' insolvency. In these circumstances,

1 Including securitization, the mortgage portfolio totaled Rb12.9 trillion.

2 Loan-to-Value Ratio, LTV – is a percentage ratio of the loan principal to the appraised value of the asset securing the loan. The LTV ratio is usually calculated by dividing the loan amount by the assessed value of its collateral. An 80% ratio requires that the loan be no more than 80% of the last purchase price of the collateral.

3 URL: <https://xn--d1aqf.xn--p1ai/upload/iblock/5a5/5a5d4aef263441a366e4fb5296b93270.pdf>

the Central Bank's efforts are aimed at encouraging banks to implement flexible refinancing policies and restructure loan debt.

The Central Bank of Russia is therefore abolishing macroprudential risk premiums for a number of retail loan categories from 1 March 2022. These measures are being introduced to support individuals as well as to ensure the sustainability of lenders under restrictions imposed by Western countries.

Zero mark-ups will apply to unsecured consumer loans in rubles, except for high-risk categories of loans (with a gross loan-to-value (LTV)¹ of more than 35% and LTV of between 20% and 35% and debt ratios of more than 80%). Cancellation of mark-ups will also affect mortgage loans (excluding loans with LTV above 90%) and retail lending in rubles for financing the cost-sharing equity contracts.

The regulator has also reduced the macroprudential risk premiums on unsecured consumer loans in rubles (with TIC of 20 to 35% and DR of more than 80%) from 1 March 2022.

The introduction of macroprudential limits on unsecured consumer loans and credits, developed by the Central Bank in late 2021 to cool the market,² is postponed until 1 January 2023. Moreover, the Central Bank of Russia recommended that creditors suspend procedures for the forced eviction of debtors from residential premises until 31 December 2022.

Another measure taken by the Central Bank to ensure the stability of domestic banks amidst sanctions was the decision to reduce the mandatory reserve requirements from March 3 this year. The new norms will apply from February 2022. The mandatory reserve requirements have been set at 2% for ruble and foreign currency liabilities to individuals and non-resident legal entities. Previously, the ratios were 4.75% and 8% for ruble and foreign currency liabilities respectively. At the same time, the averaging ratio increased to 0.9%.³ These measures will support the credit potential of banks by reducing the funds allocated to the Central Bank. According to the Central Bank,⁴ the total amount of mandatory reserves will drop by Rb2.7 trillion (of which about Rb0.7 trillion is a reduction in the reserve requirements on their books and about Rb2 trillion is a reduction in averaged required reserves) and will remain at the disposal of credit institutions.

Besides, Russian citizens and SMEs may be able to reapply for credit holidays in 2022, including for mortgages, even if they have used this option during the pandemic. Borrowers meeting three conditions equally are entitled to such an application: the amount of the loan under the agreement should not exceed the maximum set by the Russian government; the income of the borrower requesting a suspension of obligations under the loan agreement should decrease by 30% in the month before the application compared to the average monthly income in the year before the application; the borrower should not enjoy a similar grace period at the time of application.

1 True Interest Cost (TIC) means the borrower's payments under the Credit Agreement, the amounts and due dates of which are known at the time of conclusion, including payments to third parties as determined in the Agreement, if the borrower's obligation to make such payments arises from the terms and conditions of the Agreement. The full value of the loan is calculated in annual percentage terms.

2 URL: https://www.cbr.ru/Content/Document/File/131954/inf_material_20211224.pdf

3 The required reserves averaging ratio is a numerical multiplier between 0 and 1, which is used to calculate the average amount of required reserves. A higher ratio has a positive impact on bank liquidity.

4 URL: https://cbr.ru/eng/press/pr/?file=02032022_211527DKP02032022_202227.htm

3. Retail Lending in 2021

In the near future, the Bank of Russia should be expected to continue introducing additional anti-crisis measures to support individuals and lenders. If the geopolitical situation normalizes, the Central Bank may return to solving tasks aimed at cooling the retail lending market and reorienting banks towards more active engagement with the corporate segment. 